

IHS Markit / BME Germany Manufacturing PMI®

PMI slips further from March's record high as supply chain disruption continues to spread

Key findings

Rates of output and new order growth soften further from recent highs

Nearly 79% of German manufacturers report longer input lead-times

Input cost inflation surges to record high

Data were collected 11-21 May

Growth of Germany's manufacturing sector showed a further loss of momentum in May, constrained by worsening supply-chain disruption, latest PMI® survey data from IHS Markit showed. Reports of delays in the receipt of inputs reached a new record high, with bottlenecks in turn pushing up the rate of cost inflation well beyond anything seen before in the series history.

Still, goods producers remained strongly optimistic about the outlook, and continued to up the rate of job creation in order to expand capacity and in anticipation of growth over the next 12 months.

The headline IHS Markit/BME Germany Manufacturing PMI® – a weighted aggregate of measures of new orders, output, employment, suppliers' delivery times and stock of purchases – dipped for the second running in May, easing further from a record high at the end of the first quarter. Nevertheless, at 64.4 (from 66.2 in April), the index was still well above the 50.0 no-change threshold.

Though still strong by historical standards, the rate of growth in output slowed notably since April as an increased number of businesses highlighted disruption from shortages of materials and components. The loss of momentum in May was led by the investment goods category.

It was a similar picture for new orders, which remained in strong growth territory overall but registered the softest rise for three months. Surveyed business continued to report increased demand both domestically and abroad, though at the same time there were several mentions of shortage-related downtime at customers weighing on intakes of new work.

With growth of new orders continuing to outpace that of output, May saw a record increase in backlogs of work for the third month in a row, as well as a sharp and accelerated drop in stocks of finished goods.

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Germany Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Phil Smith, Associate Economics Director at IHS Markit, said:

"May's PMI survey indicates that, while still strong by historical standards, the pace of growth of Germany's manufacturing sector is being held back by supply constraints.

"The disruption from supply shortages has continued to spread, with now almost four-in-five manufacturers reporting increased lead times on inputs and a growing number also citing an impact on output and new orders due to forced downtime.

"The disruption to supply comes hand in hand with a further surge in cost pressures, with 90% of manufacturers – far more than ever before in the survey's 25-year history – reporting increased input prices in May. Strong demand fundamentals mean that manufacturers are able to pass on some of the burden of higher costs through unprecedented price increases of their own.

"Reassuringly, manufacturers continue to look past the current supply issues, with business expectations for activity over the year ahead sticking close to record highs and the pace of hiring continuing to accelerate as factories show an increased urgency to expand capacity. Although a symptom of the current supply issues, the successive record increases in backlogs of work bode well for output levels in the coming months as firms try to catch up."

The rate of job creation among goods producers continued to accelerate mid-way through the second quarter, reflecting increased efforts to expand staffing capacity. The rise in employment was the steepest seen since February 2018 and led by the investment and intermediate goods sectors. There were, however, some reports of cost management constraining hiring.

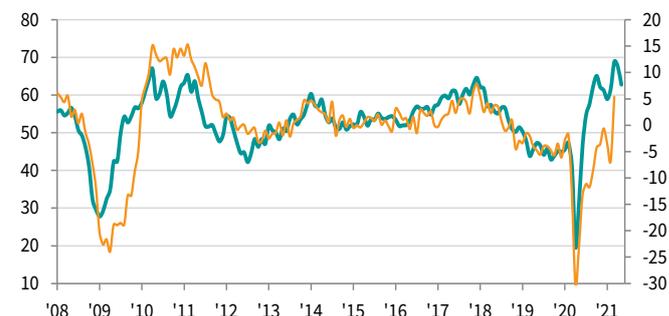
Despite manufacturers recording a near-record rise in purchasing activity in May, pre-production inventories continued to fall markedly due in part to longer supplier delivery times. The number of firms reporting delays stood at a new record high of 79%, with many highlighting shortages of electronic components, plastic, steel and timber. Logistics issues, including disruption to sea freight, were also widely cited as factors leading to longer delivery times.

The supply bottlenecks in turn put further upward pressure on manufacturing input costs. The rate of inflation jumped sharply since April and registered comfortably above the previous record high set in February 2011, with 90% of manufacturers noting higher average input costs.

This was more than twice the proportion of companies that recorded higher factory gate charges. Still, the extent to which output prices increased in May was another record for the series, following those set in March and April.

Looking ahead, German manufacturers continued to report high expectations for output in 12 months' time, citing hopes for a continued recovery in demand as COVID-19 restrictions are lifted, and the easing of supply issues. The degree of optimism showed little change from March's series-record high (data on expectations were first collected in July 2012).

Germany Manufacturing PMI Output Index Manufacturing production
 sa, >50 = growth since previous month cal. adj., %yr/yr



Sources: IHS Markit, Federal Statistical Office.

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Survey methodology

The IHS Markit / BME Germany Manufacturing PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index® (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Survey dates and history

May data were collected 11-21 May 2021.

Survey data were first collected April 1996.

Flash vs. final data

Flash data were calculated from 95% of final responses. Since January 2006 the average difference between final and flash Manufacturing PMI values is 0.0 (0.3 in absolute terms).

About PMI

Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. ihsmarkit.com/products/pmi.html

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About BME

The BME is the German Association for Supply Chain Management, Procurement and Logistics. Founded in 1954 it provides services for around 9750 individual and corporate members, including small and medium-sized businesses as well as Germany's top 200 companies. The BME liaises between businesses and academia, both on the demand and the supply side, by providing the necessary networks for communication and knowledge exchange. The association is open to all company types from any sector (industry, trade, banking/insurance, public sector, service providers, etc.).

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